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1963

AGRICULTURAL FINANCE OUTLOOK

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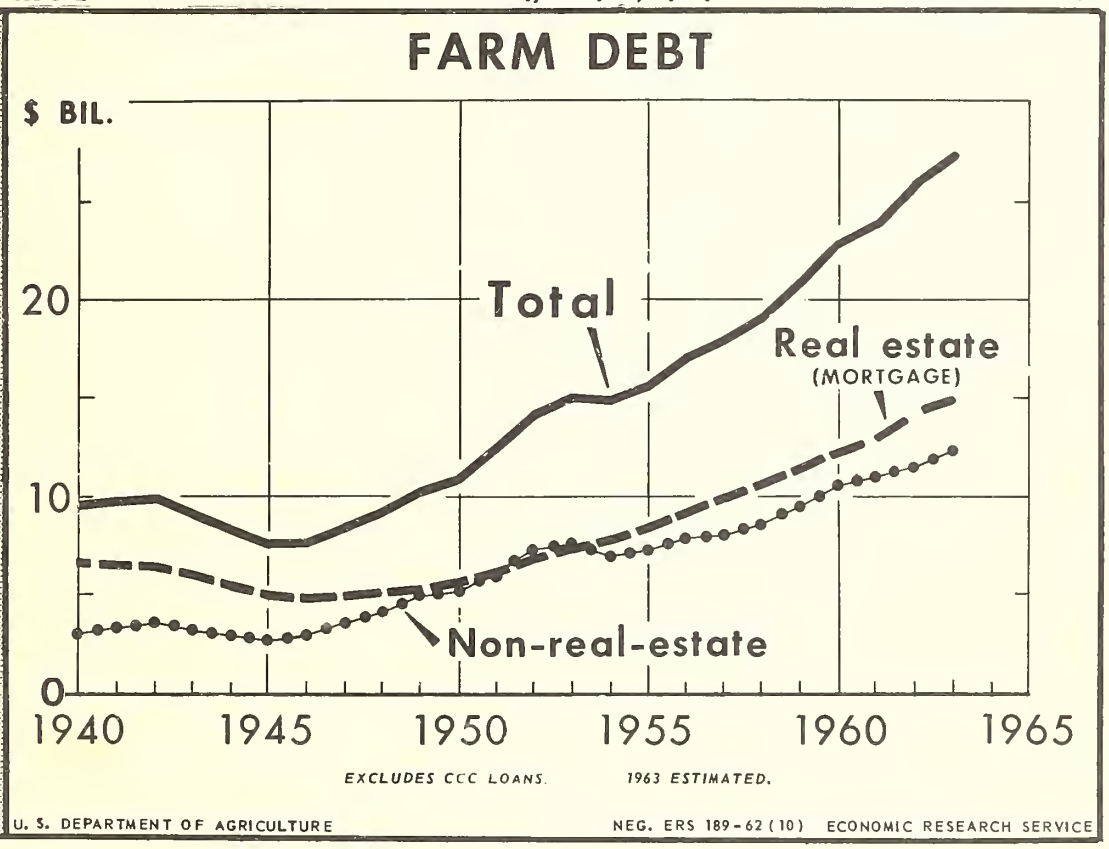

Total farm debt continued to increase in 1962. Underlying this increase was the growth in physical size and capital requirements of farms. Since 1955 the average value of productive assets per farm has approximately doubled, increasing from $25,500 to about $50,000.

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1963 AGRICULTURAL FINANCE OUTLOOK 1/

Approved by Outlook and Situation Board, October 30, 1962

THE OUTLOOK FOR 1963 2/

Financially, 1963 should be much like 1962 for most farmers. Farm income is expected to hold at the improved levels of the last 2 years, and farm real estate values to continue their uptrend. Farm debt will rise again in 1963, but the increase in farm real estate values may be sufficient to add further to the aggregate equities of farm operators.

Farmers' credit needs probably will increase again in 1963. To a large extent, these increased needs reflect the joint effects of new technologies and the cost-price squeeze. Funds will be wanted for: more land, livestock, or equipment; shifts from crop to livestock production, particularly in the South; increased use of fertilizers and of controls for insects and weeds; construction of confinement hog production facilities; mechanization of cattle feeding operations; and the installation of bulk milk handling equipment. However, in some areas reduced incomes and depleted financial reserves resulting from poor crops or low prices may be reasons for increased borrowing.

Major farm lenders generally expect a continuation for 1963 of rises in the average size of their loans to farmers; and some expect decreases in the number of their farm borrowers. These trends reflect the growth in capital requirements per farm and the decline in number of farms. However, reports of some lenders indicate the movement off farms may be less in 1963 than 1962.

Interest rates on farm loans may be a little lower in 1963 than in 1962. Moreover, many lenders probably will liberalize their lending policies to employ the growing volume of savings funds at as high rates as possible.

Ample funds are expected to be available for meeting farmers' credit requirements in 1963. Most banks according to a recent survey by the American Bankers Association believe their loan-deposit ratios are about right but more wish to increase their loans than want to reduce them. Life insurance companies report an increase of funds available for farm loans, and appropriations of the Farmers Home Administration have been increased for the 1962-63 fiscal year. Banks of the Farm Credit System expect to have adequate funds to meet the credit requirements of their members.

1/ In preparing this report, the Farm Economics Division, Economic Research Service, had the benefit of information received during late September from the district Farm Credit banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve banks, the farm-mortgage departments of several life insurance companies in various parts of the United States, several firms specializing in financing farm machinery, and major farm supply cooperatives.

2/ The analysis in this report was made prior to the Cuban quarantine, and was based on the assumption that there would be no major change in the international situation.

CREDIT AND FINANCIAL DEVELOPMENTS IN 1962

During the first three quarters of 1962, farmers' realized net income from farming operations was at an annual rate of about $12.8 billion, slightly above the January-September rate of 1961. Cash receipts from marketings through September were up nearly 2 percent, and Government payments also were higher.

Nationally, farm real estate values, which sagged in 1960, rose about 5 percent in 1961 and continued about 5 percent above year-earlier values through the first half of 1962. If this rate of increase continues, the value of farm real estate at the beginning of 1963 will be nearly $145 billion - almost $7 billion more than a year earlier (table 1).

Table 1.--Balance Sheet of Agriculture, Jan. 1, 1962, and estimate for Jan. 1, 1963

Item	Jan. 1, 1962	Estimate for Jan. 1, 1963	Percentage change
ASSETS	Billion dollars	Billion dollars	Percent
Physical assets:			
Real estate	138.0	144.5	4.7
Non-real-estate	1/ 51.7	51.8	.2
Financial assets	17.8	17.8	0
Total	1/ 207.5	214.1	3.2
CLAIMS			
Liabilities:			
Real estate debt	14.2	15.4	8.5
Non-real-estate debt to--			
Commodity Credit Corporation	1.9	1.6	-15.8
Other reporting and non-reporting creditors	11.6	12.3	6.0
Total	27.7	29.3	5.8
Equities	1/ 179.8	184.8	2.8

1/ Revised.

Other physical farm assets are expected to show little change for the year. Larger numbers of cattle and hogs, together with prices that are expected to be slightly higher than a year earlier, likely will raise the value of the livestock on farms. The value of motor vehicles and machinery on farms

probably will be up also. These increases are expected to only slightly more than offset a sizable decline in the value of farm-owned stocks of crops and a small decline in the value of farm household furnishings and equipment.

Financial assets owned by farmers probably will be about the same on January 1, 1963, as a year earlier. Small declines in farmer-owned currency, demand deposits, and U. S. savings bonds are expected to be equalled by increases in time deposits and equities in cooperative associations.

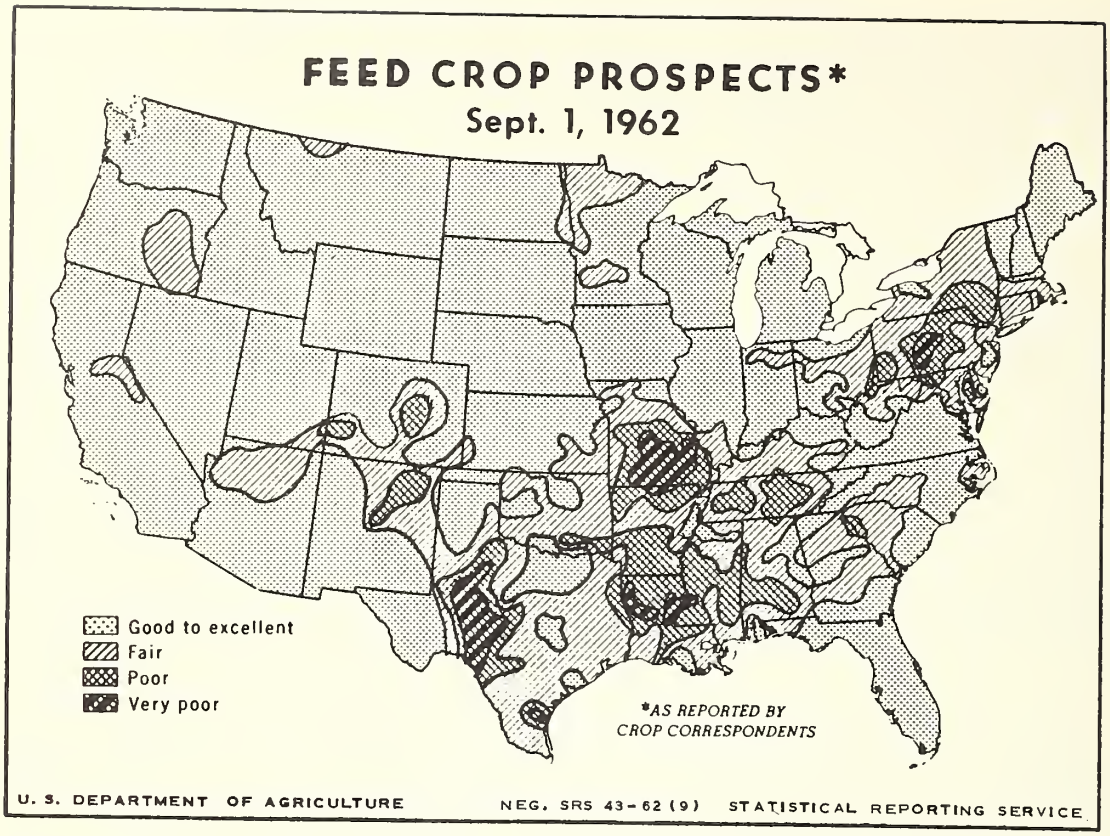
Farm debts have continued to increase in 1962. Including CCC loans, they are expected to total more than $29 billion by the beginning of 1963. Nevertheless, the equities of farmers and other owners of farm property have risen and, by the end of this year, probably will be up about $5 billion from the beginning of 1962.

These data on farm income, assets, debts, and equities reflect a further strengthening of the financial condition of farmers in 1962. On a per capita basis, the average improvement probably will be greater than the aggregate data indicate, as the number of farmers continues to decline. Also, more and more farmers are supplementing their farm incomes with earnings from off-farm jobs.

Geographically, the financial situation of farmers this fall compared with a year ago appears to be most favorable in the northern and western parts of the country and least favorable in the eastern and southern States. Most parts of the Corn Belt have had another excellent growing season and prices of cattle and hogs have been relatively high. Crops generally were good in the Northern Plains, Mountain, and Pacific States; these regions also profited from high livestock prices. Except for scattered areas affected by bad weather, the financial condition of farmers in these regions was reported the same to moderately stronger this fall than a year ago. Conditions are much improved in the Dakotas, which last year suffered from drought. The change between September 1961 and September 1962 in feed crop prospects indicates the improved growing situation for all crops (fig. 1). However, crops along the North Dakota-Minnesota border earlier this year were badly damaged by excessive rains.

In the Northeast, continued low prices of poultry products and potatoes, and the reduced price of milk, caused receipts from marketings to fall the first 9 months of 1962 below last year's receipts for the same period. The situation was worsened by severe drought from New York State to Maryland and West Virginia, which reduced yields of pastures and other feed crops. Extensive areas in the Southeast and Delta States also suffered from drought, and some areas suffered from cold weather or excessive rains early in the year. As a result, in large areas of the eastern and southern States the financial condition of farmers was reported to be weaker this fall than a year ago.

The trend toward larger farming units continued in 1962 in all parts of the country. The cost-price squeeze and the need for greater investment per farm created heavy demands for credit and made it difficult for farmers to accumulate liquid reserves. More and more of the operators of small and medium-size farms were seeking off-farm jobs to supplement their farm incomes. Some farmers were reported to be overburdened with high-cost credit obtained from merchants, dealers, and finance companies of various kinds. Despite these


FEED CROP PROSPECTS*
Sept. 1, 1962
Good to excellent
Fair
Poor
Very poor
*AS REPORTED BY CROP CORRESPONDENTS
U. S. DEPARTMENT OF AGRICULTURE
NEG. SRS 43-62 (9) STATISTICAL REPORTING SERVICE

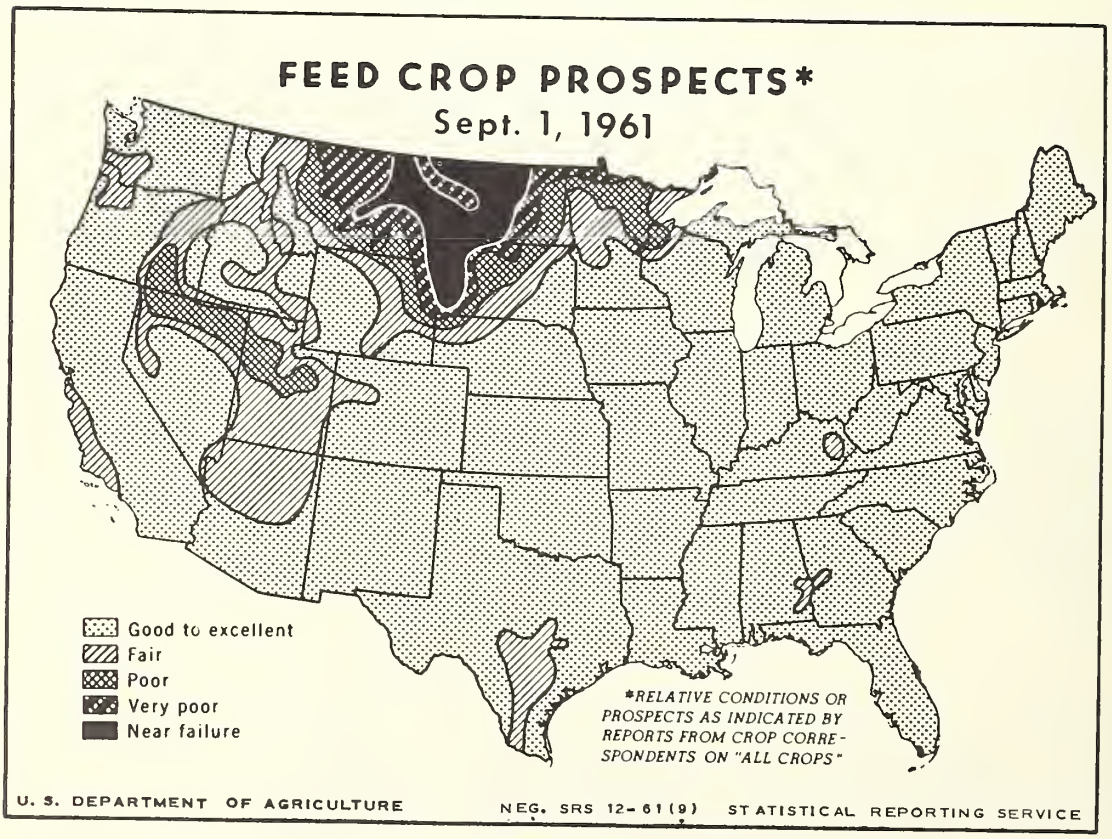

FEED CROP PROSPECTS*
Sept. 1, 1961
Good to excellent
Fair
Poor
Very poor
Near failure
*RELATIVE CONDITIONS OR PROSPECTS AS INDICATED BY REPORTS FROM CROP CORRESPONDENTS ON "ALL CROPS"
U. S. DEPARTMENT OF AGRICULTURE
NEG. SRS 12-61 (9) STATISTICAL REPORTING SERVICE

Figure 1

evidences of financial pressures, farmers were reported to be maintaining, and often improving, levels of living. A frequent comment was that some were "living on the depreciation of machinery and buildings."

Nationally, farm debt delinquencies remained low in 1962 although they increased in some areas, notably where farmers suffered from low prices or bad weather. Lending agencies reported that even in distress situations few foreclosure actions were necessary because farmers whose debts became burdensome usually sold out voluntarily--and often, in the process, realized substantial capital gains as a result of the rise in land values.

There was no increase in the rate of out-migration from farming as observed by respondents. However, some lending agencies believed the rate would increase if more off-farm jobs were available to farmers. Social Security payments were generally recognized as an aid to the older farmers who may wish to retire or reduce their scale of operations.

Farm Real Estate

Market values of farm real estate were at record levels in most States as of mid-1962. They are expected to show a further moderate rise through mid-1963 at about the same rate as the last 2 years. Largest gains in the 12 months ended July 1, 1962, were in the southeast and south central States (fig. 2). Average values for the 48 States were 5 percent above a year earlier,

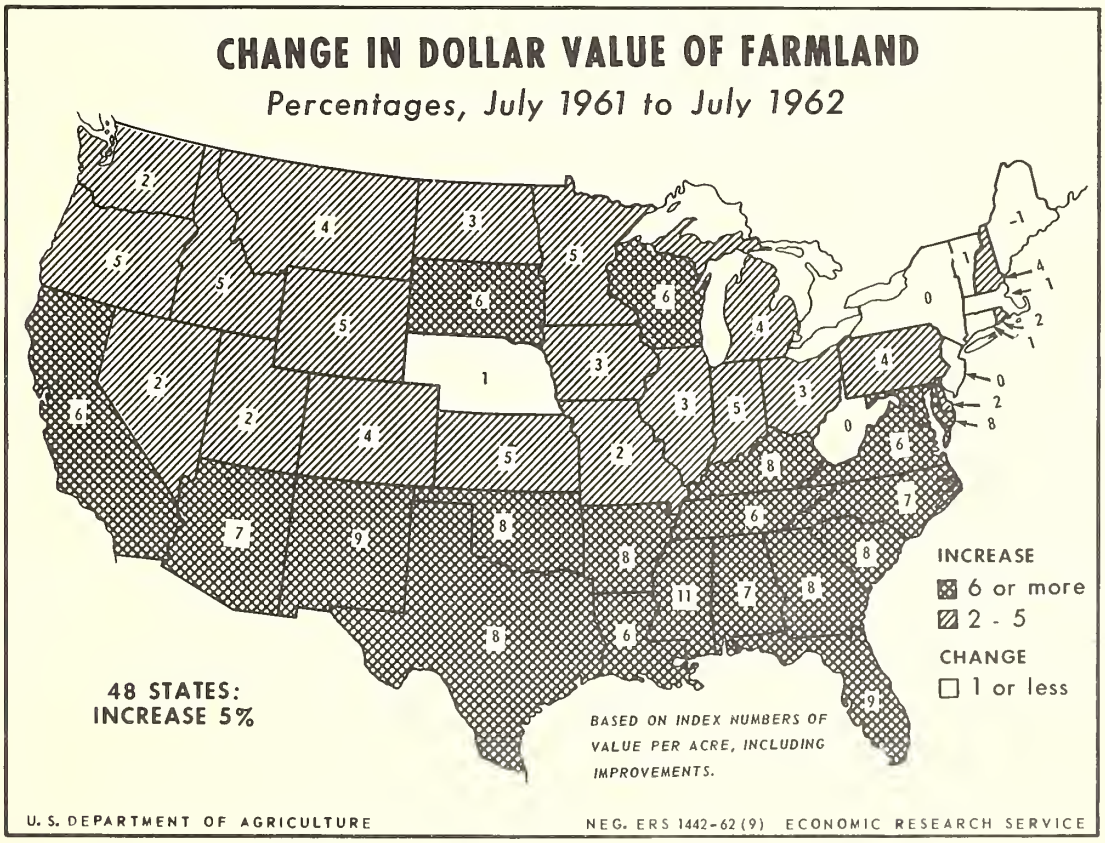


Figure 2

and 86 percent above the 1947-49 average. The total market value of farmland and buildings was estimated at $140 billion on July 1, 1962, nearly $7 billion more than a year earlier.

Mixed trends developed in market values in several regions in the 4 months ended July 1, 1962. Values declined 2 or 3 percent in several States in the central portion of the country, but continued to advance at about the previous rate elsewhere. The upward trend continued in the southeast, south-central, and mountain States. These gains more than offset the moderate declines in the central Corn Belt, and the national average increased 2 percent.

Market demand for land continues to come chiefly from established farm operators seeking additional land, and this is expected to continue into 1963. The market supply of land continues at a low level, with few pressures for present owners to sell. The supply of mortgage funds from commercial sources appeared to be somewhat larger in 1962 than last year. Sellers will continue to be an important source of credit for buyers who cannot meet the downpayment requirements of commercial lenders. A slightly larger proportion of buyers during the year ended March 1962 used credit to finance purchases than a year earlier. They borrowed a higher percentage of the purchase price. Installment land contracts have become an important method of financing purchases in the Corn Belt, Lake States and Plains regions.

Net returns from land at current market values continue to average lower than the interest rate on farm mortgages for most types of commercial farms. Most prospective buyers will need to realize substantially higher than average returns if they are to meet debt servicing costs. This is less difficult for the established operator who is financing the purchase of additional land than for the beginning farmer with a low equity. Many buyers are undoubtedly counting on the increased output and production efficiency to be realized from new technology to meet credit obligations.

Financial Assets

Farmers' financial assets probably will total around $18 billion on January 1, 1963, the same as a year earlier. While liquid financial assets are expected to decline $0.2 billion, farmers' investments in cooperatives probably will increase an equal amount. This stability in financial assets as a whole during 1962 compares with an increase of $0.2 billion in 1961, following declines of $0.3 billion in 1960 and $1.1 billion in 1959.

While liquid assets are showing a small overall decline in 1962, shifts are occurring in the various components. Demand deposits are edging off, but there has been a marked upturn in time deposits. Banks generally reported increased savings following the higher rates paid on such deposits. United States savings bonds and currency holdings are both expected to decline somewhat this year, mainly reflecting the further decline in the farm population.

Farmers' investments in cooperative associations are estimated to increase about 5 percent during 1962, similar to the rise in 1961.

Farm Debt

Farmers' use of credit is continuing to rise strongly in 1962, reflecting continued consolidation and enlargement of farms, further increases in capital investments, and higher price tags on farm real estate and some purchased production goods. Loan funds have been generally ample, and interest rates edging slightly lower. Payments on existing loans were well maintained since farm incomes were about steady and off-farm earnings of farmers remained large. These conditions have contributed to a confident outlook of both lenders and borrowers.

Total farm debt is expected to reach $29.3 billion on January 1, 1963, an increase of about 6 percent or $1.6 billion since January 1, 1962. Commodity Credit Corporation loans probably declined in 1962. Excluding CCC loans, the debt increase would about equal the brisk advance during 1961. (See cover chart.)

Debts likely will increase a little more rapidly than the value of farm assets during 1962. The total debt/asset ratio is expected to rise slightly to 13.7 percent by the end of the year. Since not all operators or landlords were in debt, this ratio is higher for indebted farms than for all farms. The Census Sample Survey of Agriculture showed that about 60 percent of all farms at the end of 1960 had debts--owed by the operator, the landlord, or both. An estimate based in part on this survey indicated that the debt/asset ratio for all of agriculture was about 12 percent at that time; the corresponding debt/asset ratio for indebted farms was around 18 percent.

Farm mortgages recorded in the first half of 1962 were up 15 percent from the same period in 1961, continuing the rise that had begun a year earlier. This increase reflected greater lending by all major lenders, with unusually large increases in direct and insured loans by the Farmers Home Administration. Loans not secured by farm real estate (excluding CCC loans) are expected to increase about 6 percent during 1962--about the same as the rise in 1961.

There were strong regional patterns in the changes in farm debt. Generally debts rose more sharply this year in areas of most favorable income. The largest increases in farm mortgage recordings were in the Central and Western States (fig. 3). Below average increases occurred in much of the East and North.

The largest increases in outstanding non-real-estate farm loans owed to principal lenders during the year ending June 30, 1962, were in the Western and Southern States (fig. 4). Nearly all of the States in the Western half of the country showed increases of 10 percent or more, and four of the six States with the largest increases were in the West; most of the States in the North showed less than the average increase.

The trend toward fewer but larger loans continued during 1962. From the first half of 1959 to the first half of 1962, the average size of farm mortgages recorded rose 28 percent, while the number of loans declined 8 percent. The increase in loan size was somewhat larger than the estimated 19 percent increase in the value of productive assets per farm during the 3-year period.

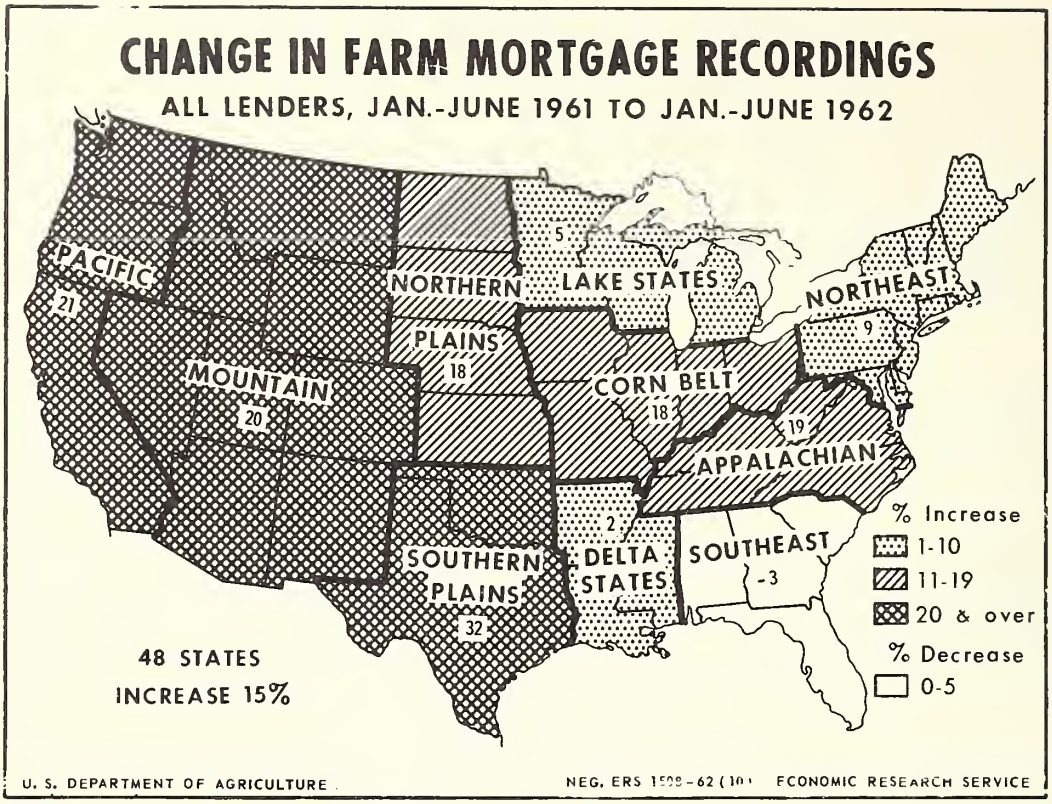


Figure 3

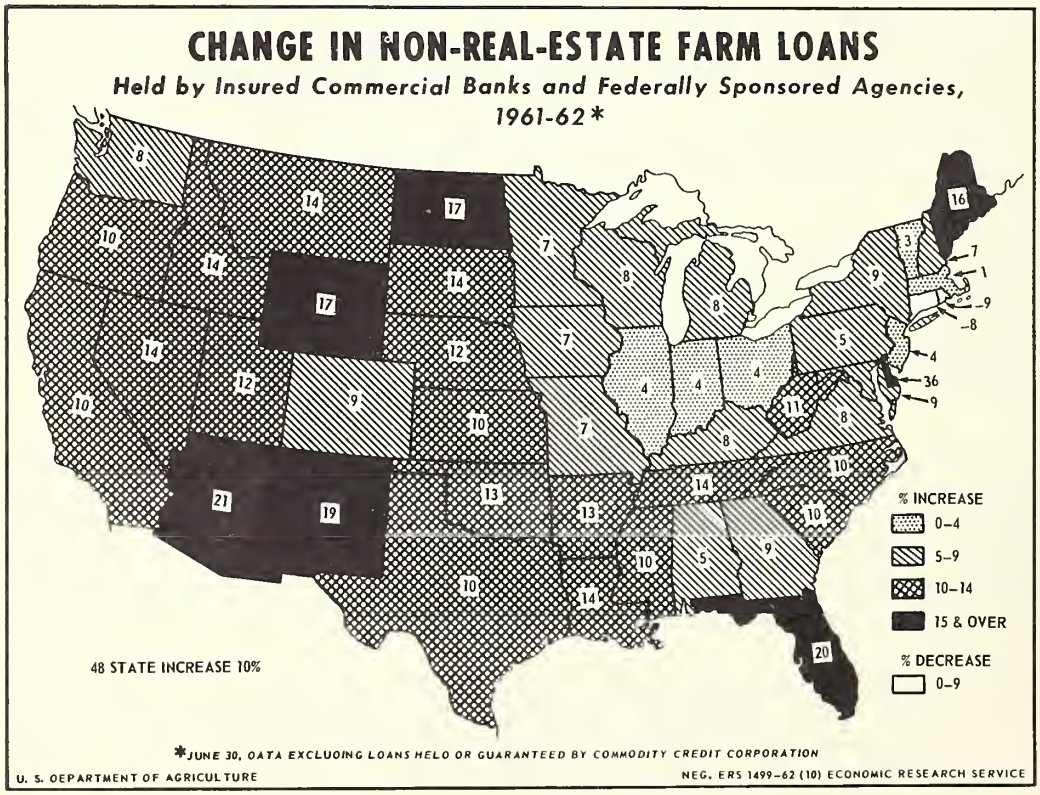


Figure 4

The further increase in non-real-estate indebtedness, as with mortgage debt, appears to result principally from substantially larger borrowings per farmer. For example, production credit association loans outstanding in August 1962 averaged $6,800 per borrower, up 24 percent from 3 years earlier.

DEALER AND FINANCE COMPANY CREDIT

Credit from dealers and finance companies includes: (1) installment term credit for purchases of large capital items such as farm machinery and equipment, including tractors; (2) short term, noninterest bearing, open account credit for items used for day-to-day farm operations.

To gain some insight into the use of credit at the retail level, a survey was conducted by USDA of selected firms that specialize in financing farm machinery purchases and of several large cooperatives that provide open-account credit for farm supplies.

Farm Machinery Credit

Firms that specialize in financing farm machinery purchases include independent finance companies and machinery manufacturers who usually operate through subsidiaries. Ordinarily, the lenders buy, at a discount, the notes given to dealers by purchasers of machinery. The data reported here were supplied by three manufacturers' subsidiary firms, and three specialized lending firms. With one exception, the scope of operations was nationwide.

In 1962, the combined volume of loans made by these firms for financing the purchase of farm machinery is expected to dip to $50 million from $51 million in 1961 and the number of loans to 22,300 from 24,200. However, the average amount per loan rose in 1962 to nearly $2,250 from $2,100 in 1961, an indication that buyers may be financing the purchase of more costly machines.

All respondents anticipated that the volume of business will be higher in 1963 and most of them plan to expand services to meet the expected increased need for funds. The outlook for 1963 is for an increase both in the number of loans and in the total amount loaned. The average amount per loan is expected to be about 5 percent higher.

Most buyers who financed purchases of farm machinery through these firms met obligations as they became due during 1962. The percentage of delinquent accounts also was low in 1961. Concerning the prospective level of interest rates for loans in 1963, most firms surveyed thought there would be no change. A few indicated that a marked change in money costs would mean a review of the interest rates but no one expected rates to increase.

An awareness of the changing complexion of the needs of farmers was expressed by the respondents. They indicated a willingness to supply financing for specialized and automatic equipment that farmers need for maintaining a high level of income. One major farm machinery manufacturer recently established a subsidiary organization for leasing machinery to users. Not all farmers will be able to, nor will they want to, rent farm machinery. But those who do can avoid a heavy capital investment and put their limited funds to other productive uses.

Cooperative Open-Account Credit

Other important sources of farm credit are the retail outlets that sell supplies to farmers. To reveal how farmers are using this avenue of credit for financing day-to-day operations, 12 major farm supply cooperative associations supplied information about their activities. They serviced outlets doing a retail business in excess of $750 million in 1962 in most of the country except the Mountain and Plains States.

These cooperatives estimated that their 1962 sales volume, in the aggregate, will be 4 percent above 1961 and they anticipate a further increase of 5 percent in 1963. Much of the looked-for increase in business next year is founded upon the increasing size of farms and the need that farmers have to buy more and more of the items used in farm production. Accordingly, most of these firms plan to intensify their sales efforts and/or expand their service facilities.

In 1962, the percentage of sales on open account made by the retail outlets served by the 12 cooperatives is expected to be slightly higher than the 70 percent reported in 1961. In 1963 the retail volume on open account is expected to average about 73 percent. The range of the proportion of credit sales among firms is relatively wide, from 60 to 85 percent, reflecting both the varied credit policies of the cooperative outlets and the needs of the customers. Although some of the cooperatives noted no reason for increased use of open-account credit, a few of them indicated that, ". . . as size of farm operations continues to expand, credit needs expand accordingly."

Most of these cooperatives reported no significant change in delinquent accounts from 1961 to 1962. In a few instances where the proportion of past-due open account credit was higher this year than in 1961, more aggressive collection programs were planned. However, for the most part no changes from 1962 credit policies were anticipated for 1963. One firm with both 10-day and 30-day open account credit was considering eliminating 10-day credit in 1963 and handling all accounts on a 30-day basis.

FARM INCOME AND EXPENDITURES

Realized gross farm income in 1962 is estimated to be close to 2 percent higher than in 1961, the highest level on record. Both cash receipts from farm marketings and Government payments likely will be larger.

The preliminary estimate of cash receipts from farm marketings for the first 9 months of 1962 is $24.1 billion, compared with $23.6 for the same period in 1961. Receipts from crops increased more than 3 percent. Cotton accounted for the bulk of this increase. Cotton prices were up 4 percent and the volume of marketings was up substantially. Receipts from soybeans and corn also were higher but receipts for wheat, potatoes, and citrus were lower than during the first 9 months of 1961.

Cash receipts from livestock in the first 9 months of 1962 were a little more than 1 percent above the same period a year earlier. Both volume of marketings and prices were slightly higher than last year. Receipts from cattle

and calves showed a substantial increase and more than offset declines for turkeys, milk, and eggs.

Government payments to farmers through September were estimated to be running at an annual rate of about $1.8 billion for 1962, approximately $400 million higher than in the same period of 1961. Payments under the Feed Grain and Wheat Programs accounted for a large part of this increase.

Farm expenditures continued to rise during 1962. Feed and livestock purchases are expected to be up 3 percent and 6 percent respectively from 1961. Fertilizer expenditures likely will be up slightly, probably as a result of an increase in quantities used. Although farm wage rates rose the total wage bill is expected to remain about the same as in 1961 because of fewer hired farm-workers. Expenditures by farmers for automobiles, tractors, and other farm machinery are estimated higher for 1962 than 1961, but little change is expected for trucks. Tax and interest payments are expected to be about 6 percent higher in the aggregate in 1962 than in 1961.

Net income realized from farming for 1962 is expected to be at least as high as in 1961. The increase in farm production expenses probably will about offset the increase in gross income. This improved level of farm income in 1961 and 1962 is about 10 percent above 1960 and the highest since 1953. On a per farm basis net realized income of farm operators is expected to be more than $100 higher in 1962 than in 1961.

About a third of the total personal income of farm people in recent years has been from nonfarm sources. This level is expected to be maintained in 1962. On a per capita basis, income from nonfarm sources may be even higher in 1962 than in 1961 reflecting in part a further drop in the farm population.

Cash receipts from farm marketings in 1963 may be close to 1962 while Government payments are expected to show some further rise. As a result, realized gross income may be up slightly but it probably will be about offset by an anticipated rise in farm production expenses. Realized net income in 1963 probably will remain at about the 1962 level.

Interest Costs

Interest rates charged on new farm loans in 1962 have been generally stable at levels a little below last year and considerably below 1960. The outlook is for a slight downward drift in rates charged on mortgage loans, and continued stability in short-term rates.

Farmers paid an average of 5.8 percent on mortgage loans obtained from life insurance companies in April-June of 1962, the latest period for which data are available. In October ten of the Federal land banks charged rates of 5 1/2 percent, one was charging 5 3/4 percent, and the remaining bank, 6 percent. One of the banks charged 5 1/2 percent on a temporary basis; the contract rate was 6 percent. Federal land bank rates have not changed for more than a year.

Rates on non-real-estate loans of banks and production credit associations averaged between 6 and 7 percent in mid-1962. These rates were a little lower than a year earlier.

The total interest bill on the farm debt in 1962 will be about $1.5 billion, $100 million higher than in 1961.

Taxes

Taxes levied on farm real estate in 1962 are estimated at $1,409 million, or 6 percent more than the 1961 total of $1,329 million. This brings taxes per acre of farmland to about $1.38 compared with $1.30 in 1961 and an average of $1.06 in 1957-59. Taxes on farm personal property (such items as livestock, farm machinery, and automobiles) were estimated at $303 million in 1962, up from $285 million in 1961.

Tax delinquency in rural areas is generally reported to be negligible despite the continued rapid increase in farm taxes. As in other recent years, the basic cause of the rise in farm property taxes is the rising cost of local government. The property tax continues to be the chief revenue source for local government units. The largest single category of local government spending is for public education which more than doubled between 1950 and 1960. Projections of recent trends indicate a continued uptrend in local government expenditures for education and other services in coming years.

Population shifts associated with the growth of suburbs are another important cause of the uptrend in farm property taxes. This movement is placing increasing demands on the property tax base to support expanded countywide government services.

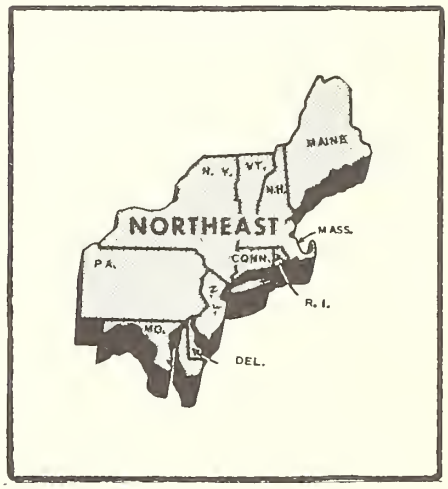
Federal income taxes--the other major component of the farm tax total--represented payments of about $1.4 billion in 1962. This amount, which was paid principally on income received in the 1961 calendar year, was the largest since 1953.

In the following pages, the financial condition of farmers in the various regions is discussed.

N O R T H E A S T

Regional Highlights

	1962	1961
	(Million dollars)	
Cash receipts from farm marketings, Jan.-Sept.		
Crops	694	705
Livestock and products	1,529	1,546
Market value of farmland, July 1	7,896	7,707
Farm real estate debt, Jan. 1	1,053	1,013
Farm-mortgage recordings, Jan.-July	114	105
Non-real-estate loans held by reporting lenders, July 1	535	498



The financial condition varied among farmers in the 11 States of this region with differences in farm size, source of income, and distance from farms to markets and population centers. Weather conditions frequently contribute to even greater variability among areas. Widespread drought in 1962 caused severe damage to forage as well as cash crops and had some effect on farm income. Cash receipts from farm marketings were 1 percent below last year's levels in the first 9 months of 1962. This was the second consecutive year in which cash receipts were lower than the previous year for the same period.

Production expenses in the Northeast have been higher this year than in 1961, especially in areas where lack of rain reduced farm-produced feed supplies and thereby made larger feed purchases necessary. Taxes increased again this year, reportedly at a rate generally above the national average. Wage rates continued their upward trend, adding to hired labor costs. Living expenses were also higher. Farm families increasingly tended to conform to living standards set by nonfarm neighbors, according to reporters. This tendency probably was more pronounced in the Northeast than in other regions because of the large nonfarm population.

Considerable variation existed, as in any year, in financial conditions among different types of farms. Dairymen experienced lower milk prices and higher feed costs, and faced the prospect of larger purchases of feed for the rest of 1962 and the first part of 1963. Poultry producers generally fared better than in 1961 and there were reports that some farmers who had abandoned the enterprise may return to it. Potato farmers received extremely low prices

for much of the 1961 crop, and prospects for prices of this year's crop, while better than last year's, are not particularly encouraging. Income from vegetable production was adversely affected by the widespread drought, but farmers who were able to irrigate vegetable crops are better off than last year.

The effect of economic conditions on farmers' financial status is somewhat mixed. Lenders almost unanimously reported decreases in farmers' savings and reserves, especially in drought-stricken areas. Reduced spending for capital items also was apparent in these areas. Nonfarm employment was high in sections close to population centers, and on many small farms off-farm work determined whether the family could survive on the farm.

Aroostook County, Maine, which is heavily dependent upon potatoes, was mentioned frequently as a trouble spot for farm debt. One respondent stated: "Carryovers of 1961 crop year loans were the rule in Aroostook County, often adding to amounts already past due from the 1960 crop year. Some potato farmers found regular credit sources closed to them but most obtained sufficient credit to grow and harvest a crop in 1962. Financial distress in Aroostook County has so far reflected itself in delinquencies but not in foreclosures." Potato prices for the new crop were reported somewhat better than a year ago but it is doubtful that both current and carryover borrowings can be repaid from this year's crop.

Lenders in the Northeast outside of Aroostook County reported no real trouble with debt repayment. A long-time trend toward more debt per farm was apparent, in line with increasing size of business and the continuing cost-price squeeze. Lenders in various parts of the region reported that loans had to be rewritten fairly regularly to keep them on a current basis. Foreclosures have been extremely rare this year, as in most recent years. However, a considerable number of borrowers who were making little progress on repayments have voluntarily sold out and liquidated their loans.

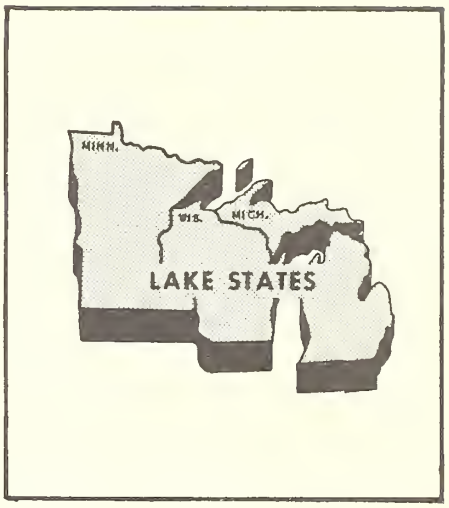
Most lenders made no drastic changes in loan policies, but some banks were reported to be seeking farm loans to make use of increased savings deposits. Emergency loans were made available from the FHA to farmers in approximately 100 counties, mainly in New York, Pennsylvania, and New Jersey, where crops were damaged by prolonged droughts, and in a few counties affected by excessive rainfall, flooding, and high winds in the spring of 1962.

Farm-mortgage recordings were 9 percent higher in the first half of 1962 than in the first half of 1961. This was somewhat less than the 15-percent advance for the 48 contiguous States, but not out of line with the trend in the region in recent years. Non-real-estate debt outstanding to principal lenders increased 7 percent in the 12 months ending June 30, 1962, also somewhat less than the increase in the national average.

Reporters forsaw a continued need for large amounts of credit in 1963. Apparently there will be at least as much credit available next year as there was in 1962. In the drought-affected counties designated as emergency areas, FHA loans at 3 percent interest may be obtained for needed production items by farmers unable to obtain credit from other lenders. The other lenders look for generally liberal loan policies with interest rates at or below this year's levels.

Regional Highlights

	1962	1961
	(Million dollars)	
Cash receipts from farm marketings, Jan.-Sept.		
Crops	623	595
Livestock and products	1,858	1,849
Market value of farmland, July 1	10,773	10,294
Farm real estate debt, Jan. 1	1,585	1,476
Farm-mortgage recordings, Jan.-July	126	121
Non-real-estate loans held by reporting lenders, July 1	773	720



Farmers in the Lake States were generally better off in the first part of 1962 than the same time last year, although there were important exceptions. Better than average growing conditions prevailed over much of the region, but northwestern Minnesota suffered from too much rainfall and flooding of the Red River Valley which delayed planting. Production of fruit crops was variable, with apple and peach crops below those of 1961, and yields of cherries and grapes much higher. However, low cherry prices were expected to offset the record production of this crop

Cash receipts from farm marketings the first 9 months of 1962 were 2 percent above the same period last year. Receipts from crops were 5 percent higher, reflecting the marketing of a portion of the 1961 good crops; receipts from livestock products increased by less than 1 percent. The drop in support prices of dairy products reduced income for dairymen who did not increase production of milk. Turkey growers are having another poor year because of low prices and potato producers were reported to be in trouble. Production costs were higher, especially in areas where excessive spring rains forced farmers to replant crops. Most reporters felt that any gains in gross income would about offset increased costs.

Farm-mortgage debt rose more slowly in the first half of the year than in the same period last year. New mortgages recorded in the first half of 1962 were up 5 percent from the first half of 1961; the corresponding year-earlier increase had been 12 percent. Lenders reported that the major uses of credit were for financing increases in farm acreage and livestock enterprises. The supply of credit appeared to be larger than last year, with active competition among lenders for loans to preferred credit risks. Increased time deposits of country banks in the Lake States were partly responsible for the plentiful supply of loanable funds. Time deposits were about 10 percent higher in July and August of 1962 than in the same months of 1961. The debt repayment situation was believed to be improved over last year in most areas.

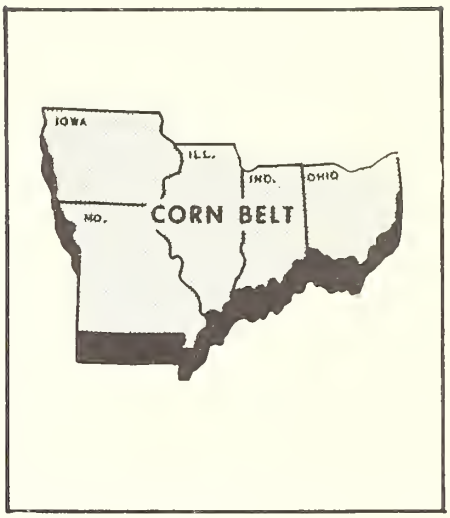
Considerable variation exists in the effects of economic conditions on farm financial conditions. Off-farm employment is higher than last year in most parts of Michigan, largely as a result of the high level of automobile production. Employment in mining was reduced in the northern parts of the region; work in the woods was reduced because of last winter's heavy snows. Migration of farmers to full-time nonfarm jobs seems to have slackened somewhat from the rapid movement of recent years. Farmers' savings and reserves are reported to be at least up to last year's levels except in the Red River Valley in Minnesota. Spending for maintenance and improvement of buildings was believed to be slightly higher than last year. Living standards, and consequently spending for consumer goods and services, continued the moderate rise which has been apparent for the past several years.

The financial outlook for 1963 is on the optimistic side in most cases. In 1963, lenders expect to have plentiful supplies of loanable funds, and credit policies likely will be liberal to farmers with sound plans for the use of borrowed money. Interest rates are expected to remain at current levels, but competition for loans may result in lower rates for preferred risks. There is some apprehension among dairymen concerning milk prices, but feed supplies are adequate for maintenance of production except in a few areas.

C O R N B E L T

Regional Highlights

	1962	1961
	(Million dollars)	
Cash receipts from farm marketings, Jan.-Sept.		
Crops	1,787	1,721
Livestock and products	3,913	3,815
Market value of farmland, July 1	31,443	30,532
Farm real estate debt, Jan. 1	2,959	2,789
Farm-mortgage recordings, Jan.-July	387	328
Non-real-estate loans held by reporting lenders, July 1	1,816	1,724



The financial condition of farmers in the 5 Corn Belt States as a whole is moderately stronger this year than last. Excellent growing conditions for feed crops prevailed in most areas. Although corn production is down about 3 percent from last year in the United States as a whole, in this region it is slightly higher than in 1961. Soybean production is slightly lower than last year in this region as well as nationally.

Cash receipts from farm marketings were 3 percent higher from January through September of 1962 than in the same period for 1961. Receipts increased 7 and 5 percent respectively in Illinois and Iowa, but were lower in Indiana, Ohio, and Missouri.

Favorable prices for cattle and hogs contributed importantly to the higher livestock income. Although the Corn Belt is a feed-exporting area, livestock accounted for two-thirds of total receipts from farm marketings. Payments under the Feed Grain program added materially to farm income in this region.

Practically all reporters indicated an increase in production costs and capital purchases in 1962 over 1961. In the words of one lender, farmers were "using the best available technology" and their expenditures for fertilizer, herbicides, and insecticides were high. Farm machinery sales were better in 1962, reflecting the more favorable incomes of many farmers.

New farm mortgages recorded during the first half of 1962 were 18 percent higher than in the first half of 1961. This was much larger than the increase that occurred between comparable periods of 1960 and 1961. Outstanding short-term loans increased 6 percent between June 1961 and June 1962. This was larger than the increase in the preceding year but smaller than the 10-percent rise for the United States. The repayment situation was excellent

over most of the area and some lenders reported increased repayments as a result of favorable income in 1961 and thus far in 1962. The relatively high prices for feeder cattle this fall increased the demand for loans in the important cattle feeding areas. However, credit supplies appeared ample in these areas and throughout the region. The Corn Belt is a major user of funds loaned by insurance companies, and competition for farm loans among these companies, banks, and other credit sources is reported to be keen.

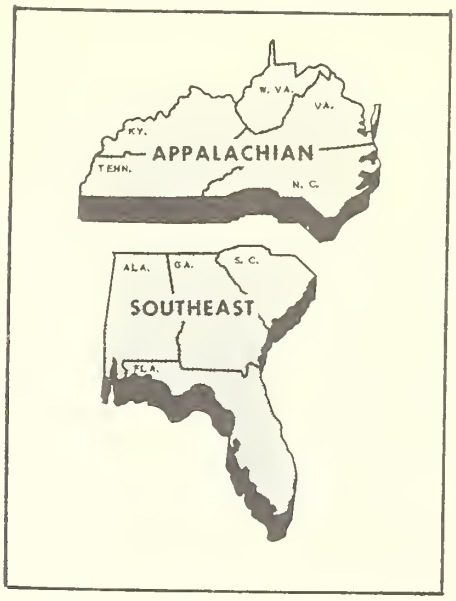
Farmers appeared to have maintained or increased cash reserves, which are believed to be higher in this region than in other parts of the United States. A continued upward trend in time deposits at country banks, apparent for a number of years, was accelerated in 1962. Demand deposits at country banks were 4 percent higher in August this year than a year earlier. They are still slightly below the level of 1958-59, possibly because some have been converted to time deposits and other sources of interest income. Time deposits in August of this year were up 16 percent from those of the previous August.

One large life insurance company in reporting on the optimism of Corn Belt farmers concerning their favorable financial position stated "farmers continue to build new dwellings on their properties and, in general, are willing to cut into their reserves to better their living conditions. They continue to purchase new automobiles, new television sets and other up-to-date conveniences. Many even borrow to pay for these improvements. Buildings continue to be well maintained and there seems to be more quonset-type barns and equipment storage buildings being constructed this year, as well as a continuance of a large number of new silos being erected. Implement dealers report they have experienced a good year as farmers purchased more than the average amount of new up-to-date machinery. It is surprising the number of large pieces of machinery such as the new combined picker-sheller that farmers are purchasing."

In 1963, a considerable proportion of the high 1962 crop production is expected to be marketed and prices of major crops are likely to be maintained by support programs. Profits from cattle feeding likely will drop because of the narrower margins resulting from high feeder prices in the fall of 1962. However, farmers can look forward to adequate supplies of credit for financing next year's operations. The cost of credit does not appear likely to increase.

Regional Highlights

	1962	1961
	(Million dollars)	
Cash receipts from farm marketings, Jan.-Sept.		
Crops	1,793	1,798
Livestock and products	1,699	1,678
Market value of farmland, July 1	19,998	18,624
Farm real estate debt, Jan. 1	1,975	1,780
Farm-mortgage recordings, Jan.-July	339	313
Non-real-estate loans held by reporting lenders, July 1	1,048	948



The financial condition of farmers in the Appalachian and Southeast Regions is about the same to moderately weaker than a year ago. Cash receipts from farm marketings for the first 9 months of 1962 were above those received during the same period a year earlier. Along the coastline, some areas sustained extensive damage from high winds, excessive rains, and hail; and drought affected many of the inland areas particularly in West Virginia, Tennessee, and Georgia.

The outlook is for another good cotton crop in the Appalachian and Southeast Regions in 1962. Production is expected to be about 6 percent higher than in 1961. Income from tobacco will be at least as high as last year. Production is up but prices are moderately lower, partly because of lower quality. Peanut yields are down slightly but prices remain at about the same level as last year. An above average crop of peaches has been harvested. In Florida, income from sugarcane likely will be up substantially from last year. Florida citrus crop prospects are excellent but prices of citrus are expected to be lower than last year.

The livestock situation is somewhat stronger this year primarily because of higher prices for beef cattle, hogs, and broilers. In some areas, milk production has been reduced by drought. Egg producers are expected to improve their position this year with production and prices above last year's levels.

Production costs approximated those of last year. Expenses for current operations remained stable with the exception of slightly higher outlays for taxes and labor. Feed costs, particularly for hay, probably will be higher during the first part of 1963 than in 1962 in drought areas because of substantially lower production.

Nonfarm employment, Government programs, and social security payments to older farmers were important factors in the income picture of Appalachian and Southeast farmers. Activities of the Area Redevelopment Administration in the region this year provided jobs for some farm people. It is anticipated that these activities will provide more widespread opportunities for farmers as well as others over the next few years.

Both farm-mortgage and non-real-estate debt are running considerably above a year earlier. The trend toward larger loans per borrower continues. Some lenders noted an increase in the percentage of loan applications to refinance short-term credit. Although debt was increasing, lenders did not foresee any serious problems with respect to debt retirement. Repayment on loans continued to be good, and foreclosures were practically nonexistent. Some lenders anticipate an increase in delinquencies during 1963 or 1964 because of the adverse effects of the severe drought that occurred in some areas. However, designation of many of the affected counties as "emergency areas" should ease this situation. In "emergency areas," farmers unable to obtain credit from other lenders are eligible to borrow from FHA at an interest rate of 3 percent.

Financial reserves of Appalachian and Southeastern farmers remained low relative to many other regions of the country. However, the situation appeared slightly better this year than in 1961. Time and savings deposits continued to rise in country banks. There was also some evidence that farm improvements were continuing, and that expenditures for family living were moving upward.

The financial position of farmers varies considerably in the region because of farm type and size, proximity to population centers, and other geographic and economic factors. However, the persistent trend toward larger farms requiring more and more capital was evident throughout the region. The larger, more efficient operations continued to show financial gains. This was true for the smaller operators who supplemented farm earnings with income from nonfarm sources. The small operators who have little or no off-farm income continued to be in a poor financial position.

A sample of comments concerning the Appalachian and Southeastern region from lenders follows: "In general, financial savings and reserves of farmers have not kept pace with their capital requirements." "Most farmers find it necessary to use credit in their operations for maintenance of buildings and equipment, family and household expenditures, and farm operations. Some of this need has been balanced by off-farm income. The number of farm operators continues to decline and small operators are moving into nonfarm employment especially in the Piedmont areas where industrial development continues at a rapid rate." "We foresee a continuing heavy influx of people into Florida from all parts of the country with a corresponding increase in demand for rural real estate, particularly in or near popular resort areas and around the larger towns."

The demand for credit will undoubtedly continue strong in 1963. Many of the factors already mentioned, plus the continuing need to improve efficiency in both dairy and poultry production, point to rather heavy demand for credit in the immediate future. Credit will be available to meet increased needs, and policies of some short-term lenders may be more liberal. Preferential rates will be offered to the larger and better operators by some lenders.

D E L T A S T A T E S

Regional Highlights

	1962	1961
	(Million dollars)	
Cash receipts from farm marketings, Jan.-Sept.		
Crops	463	307
Livestock and products	532	515
Market value of farmland, July 1	6,254	5,775
Farm real estate debt, Jan. 1	792	712
Farm-mortgage recordings, Jan.-July	133	131
Non-real-estate loans held by reporting lenders, July 1	455	405

The financial position of most Delta area farmers this fall is the same to slightly improved compared with the generally favorable situation of this time last year, although extensive areas in Mississippi and Louisiana were affected by drought. For the first 9 months of the year, cash receipts from farm marketings were considerably higher than those of the same period a year earlier. Crop prospects are generally good, but spotty, especially for cotton and sugarcane.

Income from cotton, the most important cash crop, should be above last year's, with production up about 4 percent. Rice production is expected to be up about 11 percent with yields near last year's record levels. However, the prolonged heat wave in some areas of Louisiana which reduced milling quality will exert some downward pressure on price. Income from sugarcane in Louisiana probably will be substantially below that of last year. Unfavorable weather during the early part of the season reduced expected production by about a third. Higher prices for broilers this year moderated somewhat the financial pressures on broiler producers.

Farm production expenses were slightly higher again this year than last. Farmers' spending for fertilizer, insecticides, and herbicides continued at a high level. Some reports tell of much higher cotton production costs in local areas because of replanting and intensive insect control measures brought on by unfavorable weather. Some livestock producers and dairymen also were hit by increased production costs in areas where low rainfall seriously reduced feed crop production. Harvesting costs should be about the same as last year with the exception of increased labor costs in areas where the late summer heat wave caused premature opening of cotton.

The demand for credit by Delta area farmers remains high although debt increased less rapidly this year than for the Nation as a whole. The concensus among lenders was that the declining number of farmers who remain in agriculture

will rely more heavily each succeeding year on credit to finance operating expenses. However, lenders reported generally good repayment experience. Loan delinquencies and debt carryovers are expected to be about normal this year. The general increase in country bank deposits in the Delta reportedly resulted in less restrictive lending policies on the part of some banks compared with a year ago.

Reports from bankers put farmers' financial reserves this year at about the same levels as in 1961. However, in scattered areas where weather has been a problem, reserves are being depleted to supplement reduced current incomes.

The greatest progress in improving financial positions is being made again this year on the efficient medium-size and larger farm units. The present margins emphasize the necessity for adequate size of farm business. Many of the smaller operations are unable to produce sufficient income to provide for family living and still maintain and replace buildings, machinery, and equipment. As a result, nonfarm employment continues to be an important source of income to supplement farm earnings.

Farmers' spending for family living and new capital investment remains high, particularly for machinery and equipment. Tenant buildings are not being maintained or replaced in many instances, as the rapid trend toward mechanization reduces the need for labor.

On the whole, poultry and most row-crop farmers appear somewhat better off this year than in 1961. The position of cattle producers and dairy farmers is unchanged to slightly worse than a year ago. Some face the prospect of more spending this winter for feeds.

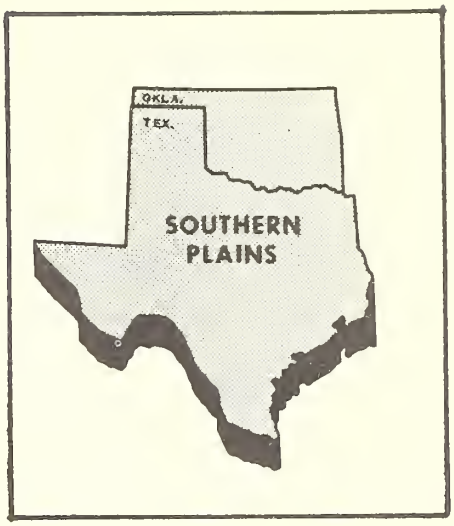
Looking ahead to 1963, the need for credit by Delta farmers is expected to continue at a high level as farmers continue to adopt new technology. Some observers think there will be an increase in the amount of cutover woodland being cleared for cultivation. This will likely mean greater demand for mortgage credit as operators of expanding medium and large farms acquire nearby or adjoining smaller tracts.

Lenders expect funds to be adequate next year, and some feel there will be increased competition among farm lenders. While interest rate reductions are not certain, some expect that rates may ease slightly early in 1963.

SOUTHERN PLAINS

Regional Highlights

	1962	1961
	(Million dollars)	
Cash receipts from farm marketings, Jan.-Sept.		
Crops	993	882
Livestock and products	1,054	1,052
Market value of farmland, July 1	17,038	15,801
Farm real estate debt, Jan. 1	1,171	1,101
Farm-mortgage recordings, Jan.-July	190	143
Non-real-estate loans held by reporting lenders, July 1	928	838



The cash farm income of Southern Plains farmers and ranchers during 1962 will probably be near that in 1961, or slightly higher, because of favorable output and prices. For the first 9 months of 1962, total cash receipts from farm marketings in the Southern Plains were nearly 6 percent higher than for the same period a year earlier. Total crop output may be slightly below 1961 levels, but this reduction reflects primarily the effects of Government acreage diversion programs for which payments were made to participating farmers. Moreover, with the exception of cotton and rice, crop prices are averaging slightly above 1961 levels. Prices for livestock, particularly cattle, were firm throughout most of the year, averaging above 1961 levels.

Prices paid by farmers for production items, interest rates, taxes, and wage rates continue to creep gradually upwards with the impact most evident in the area of labor cost. The continuation of this trend toward rising costs accelerated the increase in mechanization on both farms and ranches, requiring heavier capital investments.

The demand for farm credit in the Southern Plains continues high. Farm mortgages recorded in the first half of 1962 were up nearly a third from the first half of 1961, more than twice the increase for the United States as a whole. Non-real-estate debt outstanding at mid-1962 was 11 percent above June 30, 1961. Comments from lenders indicate that repayments on farm loans were good, with the proportion of delinquent loans no greater than usual.

Lenders continued to express concern about the increasing credit that is needed for production purposes, in view of the rather narrow profit margins within which farmers must operate. However, there has been no apparent change in lending policy which would restrict the availability of farm credit. Again this year, large operators reportedly showed little hesitancy in seeking credit for expansion where profitable opportunities exist.

The favorable farm income picture of last year and the expected continua- of this trend through 1962 suggest that the financial position of ranchers and farmers in the Southern Plains improved moderately. However, there were scattered reports of operators who seriously depleted their financial reserves. This appears particularly true among operators of small undercapitalized units.

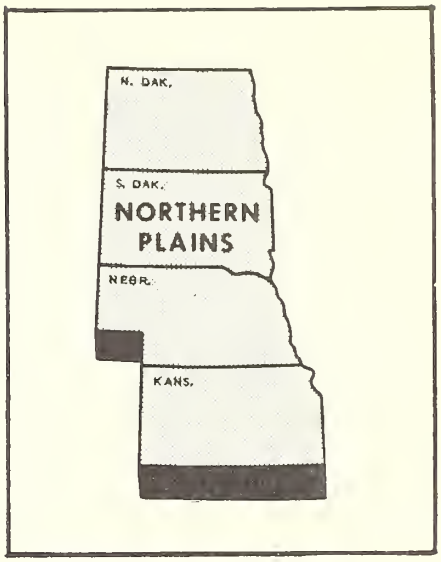
Indications are that the small unit has become more and more a part-time operation. Operators of these farms increasingly sought nonfarm employment as a means of augmenting farm incomes. However, off-farm job opportunities during 1962 did not appear as plentiful in some areas as the past 2 years. Consequently, there may have been some slackening in the migration of farmers to full-time nonfarm employment.

In the Coastal Bend section of Texas crop acreage and yield were reduced by dry weather. Range conditions over the southern half of the State varied from fair to poor but were showing improvement in September because of rain. One lender listed the following problems for the lower valley of Texas: (1) hurricane and rain during cotton picking time in 1961; (2) late freeze in early 1962; (3) heavy rains in July 1962 causing insect damage to cotton; and (4) Bracero labor problems. In Oklahoma the moderately better financial situation of agriculture in the central and eastern sections of the State is related to the livestock industry. The somewhat weaker position of farmers in western Oklahoma is reported to be due primarily to spring storms which destroyed large areas of crops.

Most reports indicated a cautious optimism regarding the prospects for Southern Plains agriculture in 1963. The generally favorable income situation in 1962 should put most ranchers and farmers in a fairly sound position going into the new year. No unusual changes were expected in the supply of credit or in the levels of credit demand, spending, and investment of farmers and ranchers during the coming year. Some lenders feel that interest rates may fall slightly below their 1962 levels.

Regional Highlights

	1962	1961
	(Million dollars)	
Cash receipts from farm marketings, Jan.-Sept.		
Crops	1,218	1,247
Livestock and products	1,568	1,521
Market value of farmland, July 1	15,004	14,511
Farm real estate debt, Jan. 1	1,231	1,119
Farm-mortgage recordings, Jan.-July	139	117
Non-real-estate loans held by reporting lenders, July 1	1,133	1,009



The financial situation of farmers and ranchers in the Northern Plains improved in 1962 compared with 1961. Except for scattered areas, conditions were generally favorable for crops and livestock production, and farm prices were at a high level. Through the first 9 months of 1962, cash receipts from farm marketings were about the same as during the like period of 1961. Increased receipts from marketings of livestock and livestock products partly offset reduced receipts from crop marketings in South Dakota, Nebraska, and Kansas. In North Dakota, where drought severely reduced output in 1961, receipts from both livestock and crop marketings were up substantially in 1962.

The spring wheat crop in both North and South Dakota is the best of the last several years. One of the few sections having financial difficulty is the Red River Valley of the Dakotas. Excessive rainfall there made it difficult to get in crops. In some areas of South Dakota and Nebraska yield of winter wheat was severely reduced by rust.

Farmers' credit needs were greater in 1962 compared with 1961. Primarily responsible for the greater use of credit was the increase in operating expenses. Not only were the things that farmers bought higher in price but also they used larger quantities. Favorable conditions in the region eased the credit situation somewhat, and lenders were reported to be more lenient in credit policies. Real estate mortgage loans outstanding were higher on June 30, 1962, than a year earlier. Some of the mortgage credit was used for farm expansion, but the movement toward farm enlargement may have slowed during the year. There was good demand, also, for real estate loans to consolidate accumulated short-term debts.

Loan repayments were generally good in 1962 throughout the region with the exception of some scattered areas where crop output was reduced by unfavorable weather conditions. Foreclosures and delinquencies remained at low levels.

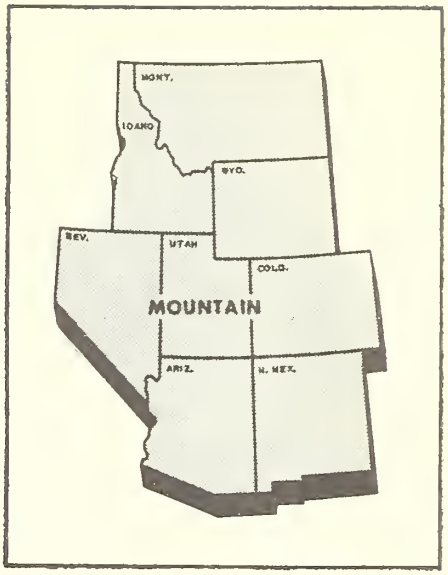
Farmers' and ranchers' financial reserves were reported to be slightly higher in 1962 even though living costs for farm families increased.

Commenting on the improved income situation in the Northern Plains a lender in South Dakota said "we have noted increased interest in the maintenance of buildings and in the building of new structures on farms. Farmers generally are interested in replacing obsolete equipment. Particularly in western South Dakota, the improving conditions will, we feel, result in less farmers leaving the farm than has been true the last number of years."

The demand for credit, along with levels of spending and investment, are likely to continue at a high level through 1963. Loan funds probably will be readily available and interest rates may soften during the year. Also, borrowers may find some lenders offering more liberal terms than they have in recent months.

Regional Highlights

	1962	1961
	(Million dollars)	
Cash receipts from farm marketings, Jan.-Sept.		
Crops	615	599
Livestock and products	964	942
Market value of farmland, July 1	11,873	11,313
Farm real estate debt, Jan. 1	1,375	1,235
Farm-mortgage recordings, Jan.-July	182	151
Non-real-estate loans held by reporting lenders, July 1	947	831



Farmers and ranchers in the Mountain States, in general, were in a stronger financial position in 1962 than in 1961. Livestock prices have been strong, with feeder cattle slightly higher than a year ago. Lamb prices were up sharply from 1961, when they were at or below the break-even point for most producers. Range conditions throughout much of this region were considerably better than last year and lamb and calf crops were turned off at satisfactory weights and in good condition.

Some areas had adverse weather conditions. In parts of Colorado the sugarbeet crop was damaged by hail; a small area of Montana was hit by drought; Arizona range conditions commenced to deteriorate in the late summer resulting in a possible need to reduce some herds. For the most part, however, 1962 was a good crop year, with irrigation water in good supply throughout much of the region and moisture conditions widely reported as "normal."

Dry-farm grain operations generally produced good yields. Irrigated crops had a favorable growing season. However, in Arizona the cotton crop was affected by "flat square" malady that reduced yields in some instances but not enough to reduce overall production much below 1961's harvest.

Farm operating costs were higher than last year throughout these States. On the whole, income was reported to have increased more than costs.

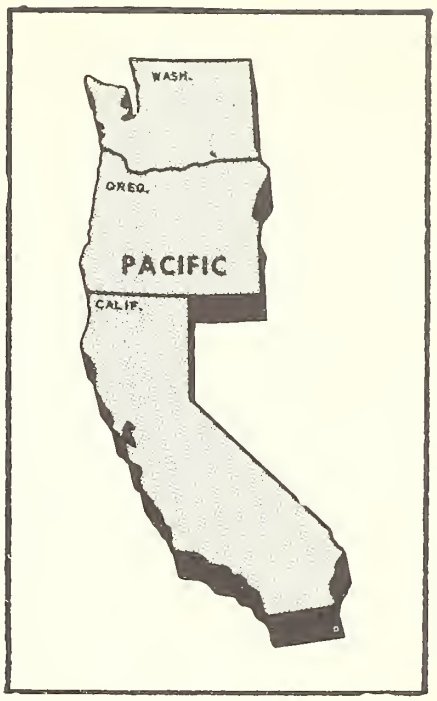
Farmers' and ranchers' need for credit rose in 1962 as production of crops and livestock increased and the unit cost of production remained high. As farm operations require ever greater cash outlays, the use of credit expands. Funds available to borrowers were ample during the year and most commercial farmers were able to obtain the amounts they needed for both operating requirements and capital improvements. Loan repayments were good in most instances and relatively few farmers were in financial distress; foreclosures were at a minimum.

Except in relatively widely scattered locations, less off-farm employment was available this year than last. Due in part to this, the movement of farmers to urban areas was probably down from last year.

Farm family living costs were believed by most reporters to be higher this year than last.

Going into 1963, most farmers and ranchers in this region probably will be considerably better off than they were a year earlier. As operating units become larger, the demand for short, intermediate, and long term credit likely will expand. However, the increase in debt is likely to be offset by increased values of assets and net worth. Funds for lending likely will be ample in 1963, and if any movement in interest rates is discernible, it is likely to be down.

P A C I F I C



Regional Highlights

	1962	1961
	(Million dollars)	
Cash receipts from farm marketings, Jan.-Sept.		
Crops	1,584	1,574
Livestock and products	1,253	1,239
Market value of farmland, July 1	19,827	18,856
Farm real estate debt, Jan. 1	2,056	1,864
Farm-mortgage recordings, Jan.-July	264	219
Non-real-estate loans held by reporting lenders, July 1	999	910

With prices for most crops grown in these States holding at about last year's level, and with a good year for both crop and livestock production, cash receipts from farming in the Pacific States were slightly higher in the first 9 months of 1962 than in the same period of 1961.

This year's wheat crop was considerably improved over the below-average crop of 1961. In addition, range cattle, barley, and potato production improved over a year ago. Sheep and lamb prices were up. Specialty crop output in California was generally good and prices were at a relatively high level except for peaches. A tremendous output of peaches for canning kept the price relatively low. In common with dairy farmers elsewhere in the country, milk prices were down as supply continued to exceed demand.

Despite the random soft spots in the agricultural economy of the region, gross farm income increased more than production expenses, with the result that farmers were generally better off financially this year than in 1961. However, the cost-price squeeze continued. Farm operators were placing increased stress on management and farming efficiency through improved and enlarged operations. Consequently, there was increased demand for credit at all term lengths although a leveling-off in the demand for long-term credit was noted. A definite trend towards both horizontal and vertical integration in certain enterprises was cited by one lender. The development of retail milk outlets and milk depots by farmers was used as an example.

Debt repayment experience in 1962 was generally good throughout the tri-State area. Delinquencies and foreclosures were a minor factor in the overall financial situation.

Spending for family living and for the maintenance of buildings and equipment was somewhat higher in 1962 than in 1961.

While conditions will vary by localities and by crops, as well as among individual farmers, the credit and financial situation of farmers in 1963 may be about the same as this year. However, some observers in the Pacific States anticipate that farmers' demand for credit in 1963 will not be as strong as in 1962, because relatively favorable conditions enabled the larger commercial farmers to build up financial reserves. The supply of funds available for lending is reported to be fully adequate to meet farmers' demands in 1963. Because of the increase in time deposits and other loanable funds, banks and other lenders are likely to make some loans they might have rejected a year earlier. Interest rates are likely to soften somewhat as the year progresses.

The prospective effect of the European Common Market on the specialty crops grown in this region, particularly California, is of concern to many farmers. These crops are very dependent upon the export market.

ALASKA, HAWAII, and PUERTO RICO

This year for the first time a brief appraisal is being made of the credit and financial condition of agriculture in the two new States and in Puerto Rico. Agriculture varies greatly among the three, and shows marked differences from the mainland in number and size of farms, character of farming, methods of financing, and financial conditions of farmers.

Alaska

Alaskan agriculture, with fewer than 400 farms, continued its struggle to get a strong financial footing. High production costs and a short growing season are serious handicaps. Improved transportation that has permitted more competition from food imports has been strong limitation on prices of local products. Dairy farmers, who are most important in the State, generally are weaker financially than a year ago. Except for the Kenai area where a small creamery has been started, milk prices declined during the year. An added difficulty is the increased capital investment needed by many dairy farmers to comply with State and military health requirements.

Farmers producing potatoes, grain, and vegetables are in about the same financial condition as last year. Nonfarm income from the Swanson River oil discovery and the fishing industry has been maintained or improved compared with last year.

Lower income forced many dairy farmers in Alaska to draw upon their savings and increase their debts. Delinquencies increased to both the Farmers Home Administration and the State Agricultural Loan Agency. The number of Federal land bank loans with delinquent installments continued at a low level. Spending by farmers generally for family and household purposes has been curtailed and expenditures to maintain buildings and equipment are being postponed in some instances.

Because of higher production expenses and lower returns, farmers' credit needs increased. Farmers themselves, however, are becoming less willing to expand their debts. One lender commented: "Farmers are getting worried, and rightly so, about their ratio of debt to real value of assets."

The variety of credit sources available to farmers in Alaska is more limited than in the rest of the United States. This is due in part to the risky nature of farming and the small number of farmers able to qualify for loans. The situation has resulted in considerable dependence upon the Farmers Home Administration. Its loans rose approximately 50 percent during the year ended June 30, 1962. Life insurance companies and production credit associations make no loans in this State.

Hawaii

In Hawaii the bulk of the agricultural output is from large farms. The 1959 Census of Agriculture shows nearly 90 percent of all farm acreage is concentrated in 244 Class I farms having gross sales of $40,000 or more. These farms, which account for only 4 percent of all farms in the Islands, average about 9,000 acres in size. Forty sugarcane farms produced 91 percent of the

sugarcane harvested in the Census year. Value of products sold by these farms averaged more than $1 1/2 million for the year. Pineapple production was even more concentrated, with 40 farms producing more than 99 percent of the tonnage in 1958-59. Much of the farm production in Hawaii is by large corporations, which integrate production, processing, and marketing within the same firm.

The financing of agricultural outputs is often only one segment of a corporation's overall financial activities. Thus, the sources of credit for Hawaiian farming are much the same as for nonfarm businesses. Loans from large banks may be most important when financing cannot be handled within the corporation. Federal land banks and production credit associations have not made loans in the Islands up to this time.

The financial position of the operators of the large Hawaiian farms is closely related to the financial situation of the sugar, pineapple, and cattle industries as a whole. Labor and other operating costs often are more important factors than growing conditions, which are relatively stable.

According to the 1959 Census, the 6,000 Hawaiian farms which remained after excluding the 244 largest farms averaged only 44 acres in size. Many of these sell substantial amounts of farm products, such as vegetables and fruit, but income from other sources is very important. About half of all operators worked 200 or more days off the farm during the census year. Sixty-four percent of all operators reported that other income of the family exceeded the value of farm products sold.

Not much is known about the credit use and situation of the smaller farms. It is apparent, however, that many are so small that they neither demand nor qualify for credit. Others borrow from commercial banks and the Farmers Home Administration. Total bank loans outstanding to farmers in 1962 were approximately $14 million, and FHA loans totaled about $3 million. FHA repayment experience has been relatively good. On the whole, the financial condition of agriculture in Hawaii is reported to be much the same now as a year ago.

Puerto Rico

The financial condition of Puerto Rican agriculture as a whole is reported to be moderately stronger now than a year ago. Areas producing coffee, tobacco, livestock products, and fruits and vegetables all have shown improvement during the year. Coastal sugarcane areas are moderately weaker financially.

The recent improvement in farming is a continuation of a trend in modernization and development that has been underway for a number of years in all segments of the Puerto Rican economy except sugar. The island's industrialization provided nonfarm job opportunities for some of the agricultural labor force, and also increased the demand for a wider variety of farm products, notably poultry, dairy, and beef. The poultry and cattle industries combined are now larger than the sugar industry in value of output.

The less favorable financial situation of farmers producing sugarcane stems mainly from high costs of operation, particularly for labor, and a

declining sucrose content of the cane. But debt difficulties and foreclosures are few. Sugarcane farms, which are in the coastal areas where industry is developing, usually can be sold at excellent prices for industrial or housing purposes. Farmers leaving farming often have found nonfarm employment; some have migrated to the U. S. mainland.

Credit has played an important role in making Puerto Rican agriculture more diversified and efficient in recent years. The Cooperative Farm Credit System, the Farmers Home Administration, and the commercial banking system, along with the Commonwealth Credit Agencies, have provided much new capital. Annual operating credit for the principal crops seems adequate and readily available. Outstanding loans of production credit associations and agricultural loans of commercial banks on the island totaled $11 1/2 million and $9 1/4 million, respectively, on July 1, 1962. Operating loans held by the Farmers Home Administration amounted to more than $4 1/2 million.

Longer term loans needed to finance capital investments for adjustments and improvements do not seem as readily available as annual production loans. Life insurance companies, a major supplier of long-term money to farmers on the mainland, make no such loans in Puerto Rico. The farm-mortgage loans made by commercial banks usually are short-term loans. Most of the institutional long-term credit comes from the Commonwealth agencies, the Farmers Home Administration and the Federal Land Bank. FLB loans are very important, now totaling about $26 million.

On the whole, the experience of Puerto Rican agriculture in repaying debt in recent years has been good. The current increase in farm income has brought higher repayments and delinquencies have been reduced below a year ago. Despite the progress, agriculture on the island still has many problems. About 16 percent of all farms are classed by the 1959 Census as subsistence farms. Considering only those classed as commercial farms, 60 percent sold products of less than $1,200 value in the Census year. But under the existing agressive program further improvement seems assured. Capital investment, financed in large part through credit, likely will continue to be an important aid to advancement.

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